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Jerry W. [unclear]  
Robert W. Edwards  
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May 18, 1973

Mr. Lowe Ashton  
P.O. Box 69  
Heber City, Utah

Re: Directors' Options

Dear Lowe:

This letter is in response to your request for a summary of the general considerations applicable to the granting of options to purchase common stock of the Company to those directors who furnished guarantees for the SBA loan.

At the outset, I believe it is permissible for the Board to treat the loan guarantees as valid consideration for the granting of options. I am, however, concerned about the number of shares which the Board desires to reserve for such options and the effect of the options on a prospective public offering.

Generally, if the exercise price of the options is at or above the proposed public offering price to the public the Utah Securities Commission will exclude the options in determining dilution from the public offering price. There are a number of states which will not approve application to sell securities if options to officers, directors and/or others exceed 10% of the total number of shares to be outstanding. Finally, it may be more difficult to attract an underwriter if there are an excessive number of shares subject to directors' options. You will recall that Prince-Covey objected to options at the time we discussed the possibility of that firm underwriting your offering.

I believe that options to the directors would not be inappropriate if they are limited to a relatively small number of shares and the offering price is something reasonable. We can discuss specific figures at the next meeting of the Board.

Best regards,

*[Signature]*  
RICHARD G. BROWN

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